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Developments in Indochina

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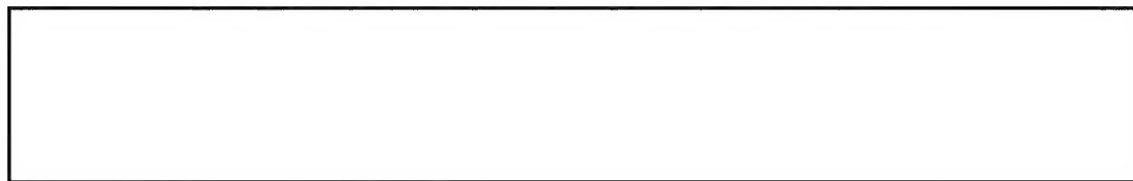
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Developments in Indochina

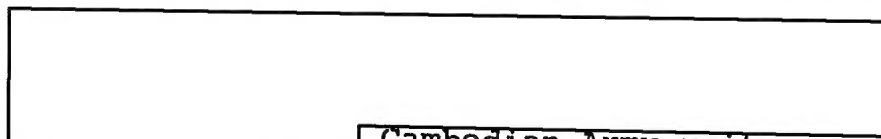
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President Thieu has drastically revised a key element of his tax reform program, but it seems unlikely to reduce inflation. The Viet Cong have received new communications equipment. The latest in a series of COSVN directives is consistent with earlier instructions which have registered strong dissatisfaction with some aspect of over-all Viet Cong performance.

CAMBODIAPhnom Penh Waits

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The renewed insurgent attacks will probably first be widespread shellings, ground probes, and possibly interdiction efforts against Phnom Penh's two over-land supply routes. Sapper attacks against key installations within Phnom Penh may also be planned. Cambodian Army units should be able to withstand such limited initiatives. The government has a decided edge in troop strength--35,000 versus between 15,000 and 20,000. In addition, government ground forces are supported by over 40 artillery pieces while the insurgents have only a few captured howitzers. A successful 11th-hour supply effort has left Phnom Penh with enough rice and most petroleum products to last until late September or early October. Ammunition stocks are also adequate. The defense of Phnom Penh, however, may ultimately hinge far more heavily on such key intangibles as morale, discipline, and leadership.

Government and military leaders in Phnom Penh, buoyed by the recent slackening of insurgent activity and some small territorial gains, are expressing confidence that the army can hold its own without US air

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support. Poor field leadership and declining morale were major problems well before the bombing halt, and if a defeatist mood develops in the ranks, even moderate enemy pressure could cause army resistance to crumble.

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Soviet Press on Cambodia

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The Soviet press is having a difficult time reporting on the situation in Cambodia. Moscow is as reluctant as ever to give Prince Sihanouk his due as leader of the Cambodian insurgency, yet it also obviously wants to be on the good side of the Cambodian Communists in case they win.

In the last few months, the Soviets have been increasing their reporting of Communist military successes in Cambodia. They have repeated claims by insurgents that they control 80-90 percent of the territory and most of the population, and have described the military "encirclement" of Phnom Penh.

Prince Sihanouk has emerged from his non-person status in the Soviet press, but in reporting on his political demands, the Soviets always attribute them to the National United Front of Kampuchea (FUNK), not Sihanouk. On 11 August the Soviets went one step further in support of FUNK. In an *Izvestiya* article, commentator Ilyinskiy berated the "reactionaries" in Phnom Penh and asserted that FUNK is the "genuine representative of the people of Cambodia."

Moscow's caution stems in large part from a reluctance to acknowledge that it has not backed Sihanouk. Beyond that, however, the Soviets may expect that the US and/or the South Vietnamese will take actions that will frustrate an outright Communist military victory in Phnom Penh and lead to negotiations wherein Sihanouk's role might be less prominent.

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LAOS

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The Rightists Resist

It took nearly six months for Prime Minister Souvanna and his negotiator Pheng Phongsavan to work out a mutually acceptable agreement with the Communists on the implementation of the February peace accord. Souvanna had hoped to sign the document on 15 August, but in typical Lao fashion the final ratification of the new settlement is becoming a drawn out and complicated affair. Objections from rightist politicians in Vientiane have forced Souvanna to try for last-minute revisions in the settlement.

The rightists object to a provision requiring the withdrawal of most army units from Vientiane and Luang Prabang, and to the Communist version of the demarcation of zones of control. They are also agitating for a clearer definition of the duties of the Joint National Political Council, which they fear will replace the present rightist-dominated National Assembly. Souvanna probably suspects that their objections on these points are designed to torpedo the whole agreement. He apparently believes that he must nevertheless make a bow to the rightists' objections to prevent them from poisoning the atmosphere just before the new coalition is formed.

Souvanna almost certainly does not expect that the Communists will make additional major concessions and has made it clear to all his critics that he will not delay a settlement much longer. Once he has gone through this last round of negotiating with the Communists, the Prime Minister may quickly sign, hoping that the US, France, and other powers will be able to restrain the rightists.

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SOUTH VIETNAM

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Thieu Revises Unpopular Tax

President Thieu announced last week a major revision of the recently implemented value-added tax, ostensibly to reduce inflation. The President's announcement called for a significant reduction in the tax coverage. The tax is now to be applied to transactions of industrial firms, importers, and wholesalers only, with farm, fishery and forest products, retail sales, and most services exempt.

The value-added tax is a key element of a major South Vietnamese tax reform program launched in late 1972. Designed to simplify revenues and increase collections significantly, it was originally conceived as a broad-based, single-rate tax on the value added at each stage of production or of domestic trade. When implemented on 1 July of this year, however, the value-added tax caused widespread confusion, largely because of the government's tardiness in publicizing the mechanics of the tax. The confusion and some conscious exploitation of the situation led to immediate increases of virtually all retail prices, often in amounts far greater than justified by the tax alone.

Thieu's decision to exempt retail sales and services from the value-added tax stems from growing official concern over the recent rapid price increases, the generally deteriorating economic situation, and the widespread corruption associated with the collection of the tax. Furthermore, the tax has been sharply criticized both from within and without the cabinet as being too sophisticated and as beyond the administrative capacity of the tax collection apparatus. There is also a wide belief that the value-

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[REDACTED]

added tax, which was fathered and pushed through by American-educated Vice Minister of Finance Vu Quoc Dung, was imposed as a result of US pressure, another factor contributing to its unpopularity.

Despite the many problems associated with the tax, Thieu's action will mean a serious setback to the government's efforts to close the gap between revenues and expenditures. Originally, projected revenues from the value-added tax for the second half of 1973 were to be on the order of some 20 billion piasters, an amount that may now prove difficult to obtain from the smaller, revised base. Barring any further revisions, future declines in revenues will have to be offset by greater deficit financing, probably leading to increased inflation. Ironically, most of the inflationary impact of the value-added tax has already taken place, and there is little likelihood that the revision will offset recent retail price gains. [REDACTED]

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New Communist Communications Equipment [REDACTED]

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A recent North Vietnamese defector has revealed that between December 1972 and mid-April 1973 his command received about 300 tons of communications equipment from North Vietnam. [REDACTED]

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[REDACTED] said that an additional 200 tons was expected to arrive during 1973.

The rallier said that shipments already received included three communications vehicles equipped with 250-watt radio sets, and two each with 220, 400, and 1,000-watt sets, respectively. These radios will substantially improve the quality and range of Viet Cong long distance communications, which until now have operated with nothing stronger than 15-watt sets.

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The shipments also contained large quantities of additional radios (1, 2, and 15 watts), telephones, cables, batteries, switchboards, and repair equipment. The Viet Cong high command and its signal office will retain the communications vehicles with high-powered radios, while most of the remaining equipment will be distributed among the various Communist divisions and regional commands in southern South Vietnam. The

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COSVN: A Directive a Month

The Vietnamese Communists' method for correcting their problems in South Vietnam these days seems to be to issue a directive a month. The latest advice, provided in "Directive 6" in mid-July, is essentially a refinement of previous guidance on how best to conduct the "political struggle."

The series of policy guidelines that have come from COSVN since the first of the year indicate that the Communists are having a rough time adjusting to the cease-fire. Except for the first two directives which dealt with, respectively, the "land grab" offensive that immediately preceded the cease-fire agreement on 27 January and the broad strategy for the "new era of political struggle," each succeeding set of instructions has registered strong dissatisfaction with some aspect of over-all Viet Cong performance.

Directive 3 in late March, for example, called on cadre to exert a greater effort to redress "the ratio of forces in South Vietnam" in favor of the revolution through political action, and took them to

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task for "a reduction in their will to struggle sharply and in timely fashion with the enemy." COSVN's Directive 4, which set forth guidelines for proselyting among South Vietnamese military forces, emphasized the point that some cadre had underestimated the importance of this program. Although we have not yet uncovered Directive 5, reports about a series of meetings held throughout the country during July suggest that it may have dealt with ways to strengthen the local Communist party apparatus.

[redacted] a supplement to Directive 6 issued in August calls on Viet Cong cadre to exert maximum efforts to wage the political struggle at the local level and again voices dissatisfaction with the unenthusiastic performances of local cadre. It orders up "crash retraining courses" to reinvigorate a revolutionary spirit in the cadre and to correct approaches that "do not meet the needs of the present situation."

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There is a note of constant frustration in the most recent COSVN directive, over the unwillingness or inability of lower Viet Cong echelons to adjust to the "new situation." Cadre are told to get rid of their "pessimism and passivism" and realize that "our position is strong." They are to capitalize on the government's weaknesses by playing up such themes as South Vietnam's economic problems, the "growing discontent" among Saigon's troops, the deteriorating situation in Cambodia, the strengthening of the "liberated zone," and the military superiority of Communist forces.

COSVN also makes it clear that future directives can be expected on a fairly regular basis. Provincial party committees are to keep the central command informed of local situations "on a weekly basis," suggesting that COSVN is convinced that the Viet Cong's political apparatus is not yet strong enough to carry out day-to-day tasks without frequent guidance. [redacted]

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